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**Gary R. Stockbridge**  
President

July 8, 2008

The Honorable Arnetta McRae  
Commission Chair  
Delaware Public Service Commission  
Cannon Building, Suite 100  
861 Silver Lake Blvd.  
Dover, DE 19904

The Honorable Jennifer W. Davis  
Director  
Office of Budget and Management  
Haslet Armory  
122 William Penn Street  
Dover, DE 19901

The Honorable John A. Hughes  
Secretary  
Department of Natural Resources and  
Environmental Control  
89 Kings Highway  
Dover, DE 19901

The Honorable Russell T. Larson  
Controller General  
Office of the Controller General  
Legislative Hall  
411 Legislative Avenue  
Dover, DE 19901

RE: Delmarva Power Off-shore Wind Farm Contract

Dear Chairwoman McRae, Director Davis, Controller General Larson, and Secretary Hughes:

These past months have been challenging, filled with significant analysis and debate. Given the importance of the issue of meeting our renewable goals and the successful outcome of this contract, I can now say it was time well spent. Along the way there has been a tremendous public benefit as citizens became more aware of, involved in and supportive of renewable energy. I appreciate the patience and participation of each of those present here today, as well as your staffs, as we worked toward a mutually agreeable solution. The recent unanimous agreement on the enabling legislation is a clear sign that groups on both sides of the debate found this agreement a winning solution for Delaware.

I hope you too find this agreement meets your expectations and that you move quickly to approve it and allow this project to proceed. The agreement before you confirms Delmarva's commitment to meet the needs of our customers by assuring that we provide the renewable resources they want, and do it at a cost they can afford. Compared to the previous proposal, several key concerns have been addressed.

First and foremost is the cost impact to our customers. This agreement reduces the size of the contract by 50 percent by reducing our commitment to 200 megawatts of nameplate capacity. In addition, coupled with the recent legislation, the agreement spreads the lower amount across our entire Delaware customer base, further reducing the cost to individual residential customers and small businesses. Finally the State recognition of the Renewable Energy Credits at 350 percent, allows us to further reduce the cost to our customers by \$100 million over the 25-year agreement. This reduces the combined price for energy and RECs from \$121.65 per MWh (in 2008 prices) down to \$117.11 per MWh. The recognition by the State is appropriate, given the promises made by Bluewater Wind to create new jobs and enhance the economy of the state as they grow their business in the region.

Our second issue of fairness was addressed in several ways. First, through the legislative action taken last week, the cost and the benefit of this wind farm will be spread to all of our Delaware customers. In addition, as we are now just part of a proposed off-shore facility, there is a good chance that we will be one of several buyers taking energy from this, making it a regional project. These changes were sufficient to resolve the issue of fairness.

Finally, we were concerned about the risk this contract would put on our customers. There were many important changes that gave us comfort that this too was addressed. The most significant change was the addition to our portfolio of three long-term contracts for land-based wind farms. These land-based contracts, if approved by the Commission, will result in the construction of three new wind farms in Maryland and Pennsylvania. We now have four wind farms under agreement (including Bluewater Wind) for 15, 20 and 25 years. A significant portion of this wind supply has a flat-rate for the length of the contract. The others are capped at a 2.5 percent increase or less each year. In addition, as mentioned before, the smaller size and the sharing of the output all serve to reduce the risk to our customers. Moreover, these wind farms, when combined, create a more diverse, reasonably-priced portfolio. As a result of this diverse renewable wind portfolio, Delmarva and its customers are now positioned as one of the renewable energy leaders in the nation - having addressed our future renewable portfolio standards for close to 20-years. We will be filing the land-based wind contracts with the Commission shortly and look forward to working with Commission Staff, DPA and interested parties in seeking their timely approval.

One other point I would like to make in reference to the contract before you today, is the relationship to the previously discussed need for additional generation resources. This contract does not need additional generation to back-up the off-shore wind facility. We have an entirely different situation with a smaller off-shore commitment spread across all Delmarva Power customers, an unknown final size of the wind farm, and three other intermittent land-based facilities in Maryland and Pennsylvania as part of our portfolio. Delmarva plans to manage the intermittency issue of this wind farm, as well as that of the land-based wind farms, within the portfolio supply concept previously ordered by the Commission.

We understand that the Commission would like to discuss regulated generation for reliability purposes in the southern Delmarva zone of PJM, and this discussion is currently part of the ongoing Integrated Resource Planning process begun in 2006. The significant environmental, reliability, pricing and location issues associated with any new generation should be carefully evaluated and options beyond those discussed in the past RFP process need to be introduced, evaluated and compared. As set forth in our most-recent IRP filing, Delmarva seeks Commission approval to conduct a study for a generation



asset located in southern Delaware. Upon completion of the study, which can be further defined in the ongoing integrated planning process, the Commission will be in a much better position to evaluate and determine whether such a new generation facility is desirable and the most appropriate path forward.

In closing I want to thank all in the State that helped to get us where we are today. First and foremost I want to thank Senator Anthony J. DeLuca, whose strong leadership held the State's interests first above any others and brought us to this solution. I want to thank Mr. Hunter Armistead of Babcock & Brown who I have come to know and respect. I thank all of the environmental community for their participation in this process. I also thank all of those who supported our concerns focused on protecting our customers, especially the leadership of the General Assembly and the chairs of the Energy Committees in the House and Senate who helped us to craft the right deal and kept the process from rushing to a wrong solution for Delaware. It took everyone to get us here, and to date the feedback I have received indicates they all see this as a true win-win accomplished the Delaware way – through cooperation and partnership.

Sincerely,

A handwritten signature in purple ink, reading "Gary R. Stockbridge". The signature is fluid and cursive, with a long horizontal line extending from the end of the name.

Gary R. Stockbridge  
President, Delmarva Power Region

cc:

Commissioner Jaymes Lester  
Commissioner Joann Conaway  
Commissioner Dallas Winslow  
Commissioner Jeffrey Clark  
G. Arthur Padmore, DPA

Bruce Burcat, DPSC  
Michael Sheehy, DPSC  
Janis Dillard, DPSC  
Honorable Ruth Ann Price, DPSC